

BAE Systems Applied Intelligence A/S

Annual report 2018

The annual report was presented and approved at the
Company's annual general meeting

on _____ 2019

chairman

Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	7
Company details	7
Financial highlights	8
Operating review	9
Financial statements 1 January – 31 December 2018	11
Income statement	11
Balance sheet	12
Statement of changes in equity	14
Notes	15

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of BAE Systems Applied Intelligence A/S for the financial year 1 January – 31 December 2018.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Nørresundby, 16 July 2019
Executive Board:

Michael Stuart Watson

Board of Directors:

Daniel Rhys Jones
Chairman

Anthony Graham Jordan

Michael Stuart Watson

Independent auditor's report

To the shareholders of BAE Systems Applied Intelligence A/S

Opinion

We have audited the financial statements of BAE Systems Applied Intelligence A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31-12-2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Matter of emphasis in the annual report

In July 2018, the Company has novated most of its contracts to another company within the BAE Group. The trade sale price was agreed to the net book value of the transferred assets and liabilities, which the Management has considered expressing the fair value of the transferred activity, assets and liabilities. It is currently uncertain whether the Danish tax authorities will accept the agreed price as made in accordance with the arm's length principle. If not, this could trigger a further tax payment, which is not recognised in the financial statements. We refer to the description of the transfer of the business and the uncertain tax position in the Managements Review and in note 13 in the financial statements.

We agree with management's assessment and accounting for the liability.

Independent auditor's report

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Violation of the provisions of the Danish Financial Statements Act on submission of annual reports

The Entity has presented the annual report for the period 1 January to 31 December 2018 too late pursuant to the requirements of S 138 of the Danish Financial Statements Act, for which reason Management may be held liable.

Aarhus, 16-07-2019

Deloitte

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56

Henrik Vedel

State-Authorised Public Accountant

MNE no 10052

Management's review

Company details

BAE Systems Applied Intelligence A/S
Sundkrogsgade 5
DK-2100 Copenhagen Ø

Telephone: +45 96 32 30 00
Website: www.baesystems.com

CVR no.: 11 93 97 75
Established: 1 January 1988
Registered office: Aalborg
Financial year: 1 January – 31 December

Board of Directors

Daniel Rhys Jones (Chairman)

Anthony Graham Jordan

Michael Watson

Executive Board

Michael Stuart Watson

Auditor

Deloitte
Statsautoriseret Revisionspartnerselskab

City Tower

Vaermestergade 2

8000 Aarhus C

Denmark

Annual general meeting

The annual general meeting will be held on 16 July 2019.

Management's review

Financial highlights

DKK'000	2018	2017	2016	2015	2014
Gross profit	87,274	231,245	210,243	195,609	155,353
Profit/loss before financial income and expenses (EBIT)	38,685	40,584	44,218	46,601	42,880
Loss from financial income and expenses	-3,435	-1,398	-459	-2,026	-3,199
Profit/loss for the year	22,512	29,699	47,387	40,131	41,016
Total assets	285,173	343,931	431,884	450,225	338,001
Portion relating to investment in property, plant and equipment	0	195	4,805	12,229	694
Share capital	2,000	2,000	2,000	2,000	2,000
Equity	249,588	229,888	198,734	151,241	111,026
Return on capital employed	16.77%	10.5%	10.0%	11.8%	11.4%
Solvency ratio	80.61%	66.84%	46.0%	33.6%	32.8%
Return on equity	9.02%	13.86%	27.0%	30.6%	45.3%
Average number of full-time employees	5	192	231	211	173

Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios".

The financial ratios have been calculated as follows:

Return on capital employed	$\frac{\text{profit/loss before net financials} \times 100}{\text{Average total assets}}$
Solvency ratio	$\frac{\text{Equity ex. non-controlling interests at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$

Management's review

Operating review

Principal activities of the Company

The primary activities of the Company are the development, purchase and sales of information technology equipment and associated support services.

Development in activities and financial position

The Company's income statement for 2018 shows a net profit of DKK 22,512 thousand, and equity in the balance sheet at 31 December 2018 stood at DKK 249,588 thousand.

During 2018 it was decided to restructure the Company, and the employees in Denmark were terminated. Further, as a consequence, a decision was taken to put the premises up for sale.

In July 2018, the Company has novated most of its contracts together with assets and liabilities related to the novated contracts to another company within the BAE Group. The trade sale price was agreed to the net book value of the transferred assets and liabilities, which the Management has considered expressing the fair value of the activity and assets and liabilities transferred. Due to this, no gain or loss is recognised in the financial statements for 2018. It is currently uncertain, whether the Danish tax authorities will accept the agreed transfer price as made in accordance with the arm's length principle.

As revenue and expenses regarding the novated contracts has not been registered separate from the remaining activities in the Company, it has not been possible to present and disclose this as a discontinued operation in the financial statements.

The Company will still have ongoing activities and will remain the holding Company for the subsidiaries. The financial statements are therefore prepared on the going concern assumption.

Results were in line with expectations and are considered satisfactory.

Branch and representation abroad

The Company has a branch in Dubai and is represented abroad in the form of subsidiaries, sales & service offices and distributors.

Risks

Foreign currency risks

Due to activities abroad, results, cash flows and equity are affected by the development in exchange rates for a number of currencies as well as movement in interest rates. It is the Company's policy to hedge commercial currency risks. Hedging is primarily made via forward contracts to hedge forecast revenue and purchases within the next 12 months. The Company does not enter into currency transactions for speculative purposes.

Foreign exchange risks relating to investments in subsidiaries and associates abroad are generally not hedged, as the Company is of the opinion that regular hedging of such long-term investments will not be favourable taking into account overall risks and costs.

Interest rate risks

All borrowings are raised with a fellow group company. Accordingly, interest rate instruments to hedge interest rate risks are not taken out.

Management's review

Credit risks

The Company is not subject to any significant risks regarding one individual customer or cooperator.

The Company's policy in respect of credit risks implies that all major customers and other co-operators are credit rated on an ongoing basis.

Environment

The Company's policies regarding the environment comprise environmental policy as well as health and safety policy.

The environmental policy is based on environmentally sound operations and is integral part of the Group's objectives for product quality and production environment. The objective of a health and safety policy is to ensure regular improvements in relation to the safety and health of employees.

All group entities regularly strive at improving health and safety conditions.

Management is of the opinion that this work has a positive impact on the Company's reputation and efficiency.

Subsequent events

Management is currently involved in discussions with BAE Group management regarding the sale of the remaining activities in BAE Systems Applied Intelligence A/S to yet another company within the BAE Group. The discussions are as of July 2019 in the early stage and are expected to be finalised during 2019 and 2020 with a subsequent transfer of remaining activities, goodwill and IP rights.

Due to past performance of the activities in the Company management expects that the transfer will result in a compensation exceeding the net assets and therefore also a tax liability when the transfer is made.

Outlook

The Company will still have ongoing activities and will remain the holding Company for the subsidiaries.

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2018	2017
Gross profit		87,274	231,245
Staff costs	2	-45,931	-183,639
Depreciation of property, plant and equipment	3	-2,658	-7,022
Profit before financial income and expenses		38,685	40,584
Profit/loss from investments in group entities	8	-500	0
Other financial income	4	22	9
Other financial expenses	5	-3,457	-1,407
Profit before tax		34,750	39,186
Tax on profit for the year	6	-12,238	-9,487
Profit for the year		22,512	29,699
Profit for the year		22,512	29,699

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2018	2017
ASSETS			
Non-current assets held for sale			
Property, plant and equipment			
	7		
Property		38,104	39,274
Leasehold improvements		0	27
Fixtures and fittings, tools and equipment		771	2,382
		38,875	41,683
Investments			
Other receivables	8	41	63
Investments in group entities	8	15,597	16,097
		15,638	16,160
Total non-current assets		54,513	57,843
Current assets			
Inventories			
Finished goods and goods for resale		0	974
		0	974
Receivables			
Trade receivables		5,034	35,860
Construction contracts	9	14,004	9,650
Receivables from group entities		188,784	191,882
Other receivables		306	913
Prepayments		152	163
Deferred tax assets	10	0	4,918
		208,280	243,386
Cash at bank and in hand		22,380	41,728
Total current assets		230,660	286,088
TOTAL ASSETS		285,173	343,931

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2018	2017
EQUITY AND LIABILITIES			
Equity			
Share capital		2,000	2,000
Retained earnings		247,588	227,888
Total equity		<u>249,588</u>	<u>229,888</u>
Provisions			
Other provisions	8	10,899	10,899
Restructure Provision		0	49,774
Total provisions		<u>10,899</u>	<u>60,673</u>
Current liabilities other than provisions			
Trade payables		0	375
Construction contracts	9	2,046	0
Payables to group entities		3,880	29,168
Corporation tax		9,510	3,605
Other payables		9,250	20,222
		<u>24,686</u>	<u>53,370</u>
Total liabilities other than provisions		<u>24,686</u>	<u>53,370</u>
TOTAL EQUITY AND LIABILITIES		<u><u>285,173</u></u>	<u><u>343,931</u></u>

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total equity
Equity at 1 January 2018	2,000	227,888	229,888
Profit for the year		22,512	22,512
Exchange rate adjustment, foreign subsidiary		-2,812	-2,812
Equity at 31 December 2018	2,000	247,588	249,588

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of BAE Systems Applied Intelligence A/S for 2018 has been presented in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Consolidated financial statements

According to section 112 (1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

According to section 86 (4) of the Danish Financial Statements Act, the Company has not prepared any cash flow statement since the Company is included in the consolidated cash flow statement of the ultimate parent undertaking, BAE Systems PLC.

The financial statements of BAE Systems Applied Intelligence A/S and its group entities are included in the consolidated financial statements of BAE Systems PLC.

The consolidated financial statements of BAE Systems PLC may be obtained from the Company or at the website, www.baesystems.com.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Danish kroner at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Danish kroner at the exchange rate at the balance sheet date. Realised and unrealised exchange gains and losses are recognised in the income statement as financial income/ expenses.

Foreign group entities

As for foreign entities, financial statement items are translated using the following principles:

- Balance sheet items are translated at closing rates
- Income statement items are translated at the rates at the date of the transaction
- Any exchange differences resulting from the translation of opening equity at the closing rate and the exchange adjustment of the items in the income statement from the rate at the date of the transaction to the closing rate are taken directly to equity.

Financial statements 1 January – 31 December

Accounting policies

Income statement

Revenue

Revenue derived from professional services represents the value of work completed, including attributable profit, based on the stage of completion achieved on each project on completion of milestones as set out in our terms of engagement.

Revenue from the sale of products is recognised on delivery to the customer. Revenue from licence sales is recognised where there is persuasive evidence that an arrangement exists, delivery has occurred and no significant vendor obligations remain, the fee is fixed or determined and collectability is probable. Revenue from support and maintenance contracts is recognised evenly over the period of the support contract.

Other operating income and costs

Other operating income and costs include items of a secondary nature relative to the entity's core business.

Other external costs

Other external costs include costs related to distribution, sale, advertising, administration, premises, bad debt, lease payments under operating leases, computer equipment, etc.

Financial statements 1 January – 31 December

Accounting policies

Gross profit

With reference to section 32 of the Danish Financial Statements Act, the items "Revenue" to and including "Other external costs" are aggregated in the item "Gross profit".

Amortisation/depreciation and impairment losses

Property, plant and equipment are depreciated on a straight-line basis to the residual value based on cost measured by reference to the following assessment of the useful life:

Property	10-50 years
Fixtures and fittings, tools and equipment	3-10 years

Gains or losses from the sale of non-current assets are recognised in the income statement under Gross Profit.

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the reporting period. Financial income and expenses include interest income and expenses, financial expenses related to finance leases, realised and unrealised exchange gains and losses on foreign currency transactions and surcharges and allowances under the on-account tax scheme, etc.

Tax

Tax for the year includes current tax on the year's projected taxable income and the year's deferred tax adjustments less the share of the tax for the year that concerns changes in equity.

Current and deferred taxes related to items recognised directly in equity are taken directly to equity.

The Company and all Danish group entities are jointly taxed. The Danish income tax charge is allocated between profit-making and loss-making Danish entities in proportion to their taxable income (full absorption).

Financial statements 1 January – 31 December

Accounting policies

Balance sheet

Property, plant and equipment

Property, plant and equipment comprise development equipment, and fixtures and fittings, tools and equipment. Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. Depreciations periods are specified under the section Depreciations.

Investments

Investments in subsidiaries are measured at cost. In case of indication of impairment, an impairment test is conducted. When the cost exceeds the recoverable amount, write-down is made to this lower value.

Other receivables and deposits are recognised at amortised cost.

Dividends from equity investments in subsidiaries measured at cost are recognised as income in the Parent Company's income statement in the financial year when the dividends are declared.

Impairment of non-current assets

The carrying amount of non-current assets is subject to an annual test for indications of impairment other than the decrease in value reflected by amortisation or depreciation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Financial statements 1 January – 31 December

Accounting policies

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Inventories

Inventories are measured at the lower of cost measured by reference to average value and net realisable value.

Contract work in progress and finished goods are measured at manufacturing cost, which includes cost of materials and direct payroll costs plus production overheads.

Goods for resale and raw materials are measured at cost, which includes the cost of acquisition plus costs of delivery.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that an individual receivable or a portfolio of receivables has been impaired. Impairment tests are conducted of individual assets or groups of assets when there is an objective indication that they may be impaired.

Receivables with no objective evidence of individual impairment are assessed for objective evidence of impairment on a portfolio basis. The portfolios are primarily assessed on the basis of the country of domicile and credit ratings of the debtors in accordance with the credit risk management policy of the Company. The objective indicators used in relation to portfolios are determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivable and the present value of the projected cash flows, including the realisable value of any collateral received.

Construction contracts

Construction contracts are measured at the selling price of the work performed less progress billings and anticipated losses. Construction contracts entail a significant degree of design customisation of produced goods. Moreover, before the work is commenced, a binding agreement must have been entered into.

Financial statements 1 January – 31 December

Accounting policies

The selling price is measured by reference to the percentage of completion at the end of the reporting period and total expected income from the contract. The percentage of completion is determined on the basis of an assessment of the work performed, which is usually measured as on the basis of milestones.

When it is probable that the total contract costs will exceed the total contract revenue, the anticipated loss on the contract is recognised as an expense and a provision immediately.

When income and expenses on a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Where the selling price of work performed exceeds progress billings on construction contracts and anticipated losses, the excess is recognised under receivables. If progress billings and anticipated losses exceed the selling price of a construction contract, the deficit is recognised under liabilities.

Prepayments from customers are recognised under liabilities.

Selling costs and costs incurred in securing contracts are recognised in profit or loss as incurred.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent reporting years.

Equity - dividends

Proposed dividends are recognised as a liability at the date on which they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the statement of financial position as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Corporation tax receivable" or "Corporation tax payable".

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on the planned use of the asset or settlement of the liability, respectively.

Financial statements 1 January – 31 December

Accounting policies

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised under other non-current assets at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the end of the reporting period when the deferred tax is expected to crystallise as current tax. Changes in deferred tax due to changes in the tax rate are recognised in the income statement for the year.

Liabilities other than provision

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. Interest-bearing debt is subsequently measured at amortised cost, using the effective interest rate method. Other debt is subsequently measured at amortised cost corresponding to the nominal unpaid debt.

Other payables are measured at amortised cost which, essentially, corresponds to the fair value.

Financial statements 1 January – 31 December

Notes

DKK'000	2018	2017
2 Staff costs		
Wages and salaries	45,540	182,413
Pensions	149	149
Other social security costs	242	1,077
	<u>45,931</u>	<u>183,639</u>
Average number of employees	<u>5</u>	<u>192</u>
<p>Referring to section 98b (3) of the Danish Financial Statements Act, remuneration of the Executive Board and Management has not been disclosed. In 2018, the remuneration for the office of Chief Executive Officer was salary costs of DKK 839 thousand and company pension contributions of DKK 76 thousand. The Chief Executive officer left before the end of the financial year.</p> <p>The board of directors has not been subject for remuneration.</p>		
3 Depreciation regarding property, plant and equipment		
Property	1,170	1,129
Leasehold improvements	201	2,182
Fixtures and fittings, tools and equipment	1,287	3,711
	<u>2,658</u>	<u>7,022</u>
4 Other financial income		
Other interest receivables, exchange gains and similar income	22	9
	<u>22</u>	<u>9</u>
5 Other financial expenses		
Interest payable, group entities	1,456	911
Interest payable, exchange losses and similar expenses	2,001	496
	<u>3,457</u>	<u>1,407</u>

Financial statements 1 January – 31 December

Notes

6 Tax on profit for the year

DKK'000	2018	2017
Tax on profit from ordinary activities		
Estimated income tax charge	7,320	3,985
Change in provision for deferred tax	4,918	5,502
	12,238	9,487

7 Property, plant and equipment

DKK'000	Land and buildings	Leasehold improve- ments	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2018	46,685	5,498	12,973	65,156
Disposals			-8,157	-8,157
Currency adjustment		290	-602	-312
Reclassifications				
Cost at 31 December 2018	46,685	5,788	4,214	56,687
Depreciation at 1 January 2018	7,411	5,471	10,591	23,473
Disposals			-8,114	-8,114
Depreciation	1,170	201	1,287	2,658
Currency adjustment		116	-321	-205
Depreciation at 31 December 2018	8,581	5,788	3,443	17,812
Carrying amount at 31 December 2018	38,104	0	771	38,875

Financial statements 1 January – 31 December

Notes

8 Investments

DKK'000	Other receivables	Investments in subsidiaries	Total
Cost at 1 January 2018	63	22,208	22,272
Disposals during the year	-	-	-
Cost at 31 December 2018	63	22,208	22,272
Value adjustments at 1 January 2018	0	-17,010	-17,010
Adjustments during the year	-22	-500	-522
Value adjustments at 31 December 2018	-22	-17,510	-17,532
Hereof presented as provisions	-	10,899	10,899
Carrying amount at 31 December	41	15,597	15,638

According to section 97a (4) of the Danish Financial Statements Act, no information regarding name, registered office and legal structure is to be disclosed on subsidiaries, as it may be detrimental to the Company.

There has been no sale or purchases of the shares in the fiscal year.

Stake, equity and results are specified as follows for the six subsidiaries:

DKK'000	Stake	Equity	Results
Company 1	100	-284	80
Company 2	100	6,054	2,911
Company 3	100	16,010	559
Company 4	100	-10,255	149
Company 5	100	3,187	83
Company 6	65	5,163	-247

Financial statements 1 January – 31 December

Notes

9 Construction contracts

DKK'000	2018	2017
Specification on contract work in progress		
Sales value of work performed	67,658	188,530
On-account payments received	-55,700	-178,880
	11,958	9,650
Which is specified as follows:		
Construction contracts (net assets)	14,004	9,650
Construction contracts (net liabilities)	-2,046	0
	11,958	9,650

The computation of the degree of completion is based on the progress of part deliveries in the form of partial approvals, milestones, etc. obtained from the customer. Due to the nature and complexity of the construction contracts, project completion is often subject to uncertainty. The Company's principle for assessing the degree of completion allows for this issue as a significant part of total income from a construction contract is recognised at a late stage along with the completion of approvals, tests, etc.

The Company's Management is of the opinion that the accounting estimates in connection with the recognition and measurement of constructions contracts are sound.

Financial statements 1 January – 31 December

Notes

DKK'000	2018	2017
10 Deferred tax asset		
Deferred tax at 1 January	4,918	10,420
Deferred tax adjustment for the year in income statement	-4,918	-5,502
Adjustment of deferred tax, regarding prior years	0	0
Deferred tax at 31 December	0	4,918

There is no Deferred tax asset at year end. The opening Deferred tax asset comprised deferred tax regarding intangible assets, property, plant and equipment, bad debt and other provisions.

A tax rate of 22% has been applied to the statement of deferred tax in 2018.

Deferred tax assets are recognised for non-utilised tax losses to the extent it is considered probable that tax losses will be realised within three to five years against which the losses can be set off.

At 31 December 2018, the Company assessed that there would be no tax losses realisable within a foreseeable future so the deferred tax asset was released from the balance sheet.

The Company's Management assesses that the accounting estimates in connection with the recognition and measurement of deferred tax assets are sound.

11 Non-current liabilities other than provisions

No non-current liabilities are outstanding after 5 years.

Financial statements 1 January – 31 December

Notes

12 Contractual obligations, contingencies, etc.		
DKK'000	2018	2017
Other financial obligations		
Other operating leases	12	77

The Company has entered into operating leases with a remaining term of 6 months and an average monthly lease payment of DKK 12 thousand in 2018.

The Company is jointly taxed with all other Danish companies in the BAE Systems Applied Intelligence A/S Group. The companies included in the joint taxation have joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties. Any subsequent corrections of taxes may entail that the Companies' liability will increase.

13 Contingent liability

The Company has in 2018 novated most of its contracts to another company within the BAE Group. The trade sale price was agreed to the net book value of the transferred assets and liabilities. It is currently uncertain whether the Danish tax authorities will accept the price as made in accordance with the arm's length principle. If the Danish tax authorities does not accept the agreed price as representing fair values, this could trigger a further tax payment in Denmark, which has not been recognised in the financial statements for 2018.

14 Mortgages and collateral

As a guarantee to the bank, the Company has provided collateral of DKK 35,000 thousand at 31 December 2018 secured upon outstanding accounts. The collateral is issued by BAE Systems Applied Intelligence A/S as well as three subsidiaries.

Collateral for mortgage amounted to DKK 34,595 thousand at 31 December 2018 secured upon land and buildings located at Bouet Møllevvej 5, 9400 Nørresundby.

15 Currency and interest rate risks and the use of derivative financial instruments

The Company transacts currency hedges related to significant currency exposures on specific revenue and receivables. The hedges are primarily related to EUR denominated contracts. The value of the instruments is not deemed material.

Financial statements 1 January – 31 December

Notes

16 Related party disclosures

Control

Related parties exercising control include the principal shareholder BAE Systems PLC due to its stake in the Company.

The following shareholders are registered in the Company's register of shareholder as holding minimum 5% of the voting rights or minimum 5% of the share capital:

- BAE Systems (Overseas Holdings) Ltd.

Related parties also include the directors of the Company, subsidiaries of the Company and other subsidiaries of the principal shareholder.

BAE Systems Applied Intelligence A/S is part of the consolidated financial statements of BAE Systems PLC, United Kingdom, which is both the smallest and the largest group in which the Company is included as a subsidiary.

The consolidated financial statements of BAE Systems PLC can be obtained by contacting the Company or at the following website: www.baesystems.com.

Related party transactions

The Company has chosen only to disclose transactions that are not carried out on an arm's length basis in accordance with section 98c (7) of the Danish Financial Statements Act.

17 Events after the balance sheet date

The Company is currently involved in discussions with BAE Group management regarding the sale of the remaining activities in BAE Systems Applied Intelligence A/S to yet another company within the BAE Group. The discussions are as of July 2019 in an early stage and are expected to be finalised during 2019 and 2020 with a possible subsequent transfer of the Company's remaining activities, goodwill and IP rights.

Due to past performance of the activities in the Company management expects that any transfer will result in a compensation exceeding the net assets and therefore also a tax liability when the transfer is made.